

# The Future of Europe's Debt Crisis

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# Outline

- **The Euro Area will not break up**
- **The pre-crisis achievements**
- **What happened then?**
- **How is the EU addressing it**
- **Conclusion**

# The Euro Area will not break up

1. Commentators often underestimate the depth of the commitment of all Member States to the euro. Formal Leaders commitment to do whatever it takes to preserve the stability of the Euro Area.
2. Political benefits:
  - Preventing past, self destructive behavior: Anchor of peace, democracy, Western values
  - Being at the decision table
3. Economic benefits
  - Preventing past, self destructive behavior: Anchor of price stability, relative fiscal discipline

# Pre-crisis achievements

- Unprecedented growth: income per capita growing at same pace as US
- Job growth in advanced EU outstripped that in the US
- “Convergence machine” (*World Bank Golden Growth Report*)
- Productivity increases in recent Member States outstripped East Asia, Latin America
- Exports of goods and service grew faster than those of BRICs.

# What happened then

- Euro no substitute for sound policies.
  - Perfect storm
    - Financial storm
    - Fiscal storm
    - Competitiveness storm
    - Incomplete governance storm
- with hypersensitive financial markets  
following Lehman collapse

# What happened then

- **Financial storm:**
  - Mispricing of risk: cheap, abundant credit, misallocation of savings to real estate, consumption, private over-indebtedness
- **Fiscal storm:**
  - Easy deficit financing, excessive expenditure, pro-cyclical revenues, insufficient enforcement
- **Competitiveness storm:**
  - Credit-based consumption, wage and price increases, poor productivity
- **Governance:**
  - Statistical rules enforcement, fiscal framework enforcement, no crisis mechanism, poorly coordinated financial supervision



# How is the EU addressing it

## **Rebuilding trust: responsibility and solidarity**

### **Tackling the four strands**

#### **1. Restoring confidence in banking system**

- Bank capital buffers increased: biggest European banks will all have 9% core tier one capital by this summer
- Liquidity provision by ECB

#### **2. Reining in fiscal deficits and debt**

- Broadening and deepening surveillance and strengthening enforcement
- Fiscal adjustment plans to bring debt to sustainable levels
- Strengthening national surveillance and debt brakes rules

# How is the EU addressing it

## Tackling the four strands:

### 3. Competitiveness to increase growth potential and jobs

- Growth-friendly fiscal adjustment
- Accelerating of structural reforms to remove rigidities, improving business environment, unlocking growth
- Giving boost to Single Market
- Using EU funding capacity to support growth

### 4. Filling governance gaps

- Creating crisis management mechanisms: EU firewalls, contributing to increase global firewalls (IMF lending resources)
- Integrating financial supervision
- Strengthening enforcement of statistical rules



# Conclusions

- The Euro Area will not break up.
- At each critical juncture the EU put crises to use to understand strengths, overcoming weaknesses
- Europe is not missing this crisis either. Golden growth model being repaired, governance framework made more robust.
- We are not out of the woods yet. But there is commitment to continue doing what it takes, and there some Member States overcame similar problems in the past
- The Euro Area will come out strengthened from the crisis

**Thank you very much for your attention.**

**Contact us.**

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